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OFFICE OF THE SENIOR VICE PRESIDENT --
EXTERNAL RELATIONS

OFFICE OF THE PRESIDENT
1111 Franklin Street
Oakland, California 94607-5200

August 10, 2011

Clerk of the Board, Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Comments on proposed regulations regarding allocation of cap-and-trade allowances

The University of California applauds CARB's efforts to develop an effective cap-and-trade program that supports the state's AB32 goals. In the interest of seeing this program succeed, while at the same time minimizing its negative impacts on the University of California's teaching, research, and public service missions, UC proposes the following cap-and-trade compliance path:

- UC campuses that are directly regulated under cap-and-trade will be required to submit a five-year plan to CARB that details anticipated investments in GHG abatement.

- Pending CARB's approval of these plans, regulated UC campuses will receive an allocation of allowances sufficient to cover 100% of their surrender obligation for the duration of the cap-and-trade program.

- In exchange for this free allocation, CARB will require regulated UC campuses to invest a sum commensurate with the market value of the freely allocated allowances in GHG abatement projects.

  For example, a UC campus with a cap-and-trade compliance obligation of 100,000 tons CO_2e in a given year would receive from CARB a free allocation of 100,000 allowances. If the market value of an allowance in the given year was $15, then the University would have to demonstrate to CARB that it had invested $1.5 million in GHG abatement projects.

Allocating allowance value to UC will further AB 32 goals, while reducing UC's net compliance costs

Cap-and-trade compliance costs are coming at a time when UC is being required to absorb a $650 million cut in state support. The proposal outlined above would provide the University with the flexibility to invest in on-campus GHG abatement projects that reduce annual operating costs, thereby advancing the goals of AB 32 while minimizing cost impacts.

The University of California is already demonstrating the feasibility of this concept by implementing $250 million in energy efficiency retrofits, the majority of which are being financed through bonds that UC is repaying through operational savings. UC is undertaking these projects as part of its voluntary effort to reduce its greenhouse gas emissions to year 2000 levels by 2014, 1990 levels by 2020, and to achieve carbon neutrality as soon as possible. Allocating allowance value to UC and requiring UC to invest this allowance value in abatement projects would accelerate and expand UC's existing climate action investments.

UC meets CARB's criteria for receiving an allocation of allowance value

In "Appendix A: Staff Proposal for Allocating Allowances to the Electric Sector," CARB establishes that in order for regulated entities to receive an allocation of allowance value to use on behalf of end-use customers, that entity must have a direct transactional relationship with end-use customers. End-use customers on a UC campus are faculty, students, and staff. For some time, state funding has not been sufficient to cover the University's operating expenses, so any increase in operating costs resulting from the purchase of allowances will necessarily be borne by faculty, students, and staff. Thus, UC campuses have a direct transactional relationship with their end-use customers.

CARB has maintained that a carbon price signal for end-use customers will guide consumer preferences toward low-carbon goods and services, maximizing the impacts of cap-and-trade. CARB is therefore concerned that an allocation of allowance value not be used to mute a carbon price signal for end-use customers. In the case of a UC campus, this concern is unfounded. Although energy consumption on UC campuses is driven by teaching and research activities, universities do not charge individual end-use customers (e.g. faculty, students, departments, etc.) for their energy consumption. Absent a means of passing marginal compliance costs along to end-use customers, the University's compliance costs will be borne uniformly by students and faculty. There would be no price signal for UC's end-use customers to conserve electricity or invest in more efficient equipment.

This inability to pass marginal compliance costs along to end-use customers differentiates universities from other entities regulated under cap-and-trade. Allocating allowance value to UC for the express purpose of investment in abatement projects addresses this market failure.

Allocating allowances to UC helps ensure fair treatment for self-generators of electricity and provides recognition for early adopters of combined heat and power (CHP) plants

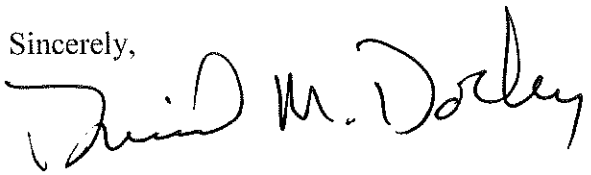
UC is being regulated under cap-and-trade largely because it owns and operates five large CHP plants that serve onsite electrical and thermal loads. In other words, UC supplies its own electricity, making it both a generator and an end-use customer. CARB has established a policy goal of returning allowance value to the state's utility companies in an amount sufficient to defray over 100% of their end-use customers' expected cost burdens. Under current rules, the same cost relief will not be extended to self-generators of electricity like UC. The perverse incentive created by this policy disconnect is illustrated by the fact that if a UC campus were to transfer ownership of its CHP plant to its local utility but in no other way alter the way that the plant operates, that campus would expect to receive allowance value to defray carbon costs in

electricity rates. Privileging utility customers above self-generators in this way creates a powerful disincentive to self-generation.

It is also worth noting that, but for their CHP plants, several UC campuses would likely fall below CARB's cap-and-trade compliance threshold. This means that those campuses would not have to bear a carbon cost for natural gas usage until 2015. Thus, despite the fact that CHP plants meet campus electrical and thermal needs more efficiently than separate heat and power generation, and despite the fact that CARB identified increased deployment of CHP as an important mitigation measure in its AB 32 Scoping Plan, the proposed cap-and-trade program effectively penalizes the University for being an early adopter of CHP.

Lastly, for the record the University hereby incorporates by reference the comments contained in its previous letter dated December 3, 2010, from Anthony Garvin to the Clerk of the Air Resources Board.

Sincerely,



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